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SUBJECT: JEDDAH PRIVATE SECTOR WEIGHS IN ON THE GLOBAL
FINANCIAL CRISIS

1.(U) Summary. In a roundtable discussion convened by AmConsul Jeddah, a group of Jeddah economists, bankers, and business executives expressed confidence in the short and long term prospects for the local and national economy despite the worsening international economic climate. While acknowledging the overreaction by stock market investors to external factors, the consensus of opinion was that the policies of the Saudi Arabian Monetary Authority (SAMA) combined with the naturally conservative principles of Islamic banking, have afforded the Saudis a minimally leveraged investment profile and thus sufficient reserves to maintain reasonable, even if reduced, economic growth over the next few years. Despite a general tenor of optimism, particularly with regard to the local economy, most participants assumed that the economic situation would deteriorate worldwide for the next six months at least, some estimating that outside Saudi Arabia a global recession will continue until 2010 or 2011. End Summary.

2. (U) Participants in the roundtable included Perihan Al-Husseini and Dr. Sami Suwailam, economists from the National Commercial Bank (NCB), and the Islamic Development Bank, respectively; Wadea Kabli, economics professor at King AbdelAziz University; Ibrahim Foudah and Amr Khashoggi, members of the local business community with wide-ranging investment interests in the KSA and beyond; Hawazin Eshki, a corporate relationship banker from the Saudi French Bank, and Hasan Al-Jabri, Board Member, Managing Director and Head of Investment Banking at NCB Capital. Two of the participants were young women. All but one lived and studied in the U.S.

3. (U) Despite coming from a variety of institutions and ranging in age from early twenties to mid-sixties, there was no real point of controversy or disagreement during the course of the two-hour exchange. For example, regarding the Saudi stock market which now stands at a five-year low, several participants lamented the emotional reaction by investors to falling markets elsewhere. Ms. Al-Husseini noted that most investors in the Saudi market are individuals rather than institutions and thus given to emotionally-driven investment decisions. Several participants said that the listed companies are all doing well, earning a profit, and set to continue on the same course - though profits may be lower than in past years. Still, as one participant noted, "even if returns at listed companies fall to the 8 percent range -- as compared with rates as high as 30 percent or more in recent years, that would still be considered high by historical and international standards." The group agreed that investors were being foolish to sell-off their positions given the positive fundamentals. One of the businessmen said that more people should follow the example of Warren Buffet and be greedy when others are fearful.

4. (SBU) One of the factors underlying the group's general sense of satisfaction with the economy in both the Western Region of Saudi Arabia and Kingdom-wide is the falling price of raw materials and the resulting drop in construction

costs. The decline in the cost of housing was greeted as a positive development given the shortage of affordable housing units for middle and lower income families. Thus, even though they acknowledged there had been some announcements of slowdowns in public projects such as refineries and aluminum smelters, they said that projects in the private sector are all still moving forward. Foudah noted that a 2700 unit residential construction project in which he is involved is being recast from a luxury to a middle market project, something that was not possible based on raw material prices even two months ago. The price of steel has dropped 36% since late June and the price of cement is also down. (Note: Some participants felt that a Royal decree which prohibited the exportation of cement in order to satisfy local demand would have to be rescinded due to projected over-supply of domestic production. They said this is in fact one reason why additional aluminum smelters should not be built, one being sufficient to meet domestic needs).

15. (U) Concerning leverage in the financial sector, Dr. Suwailem said that SAMA policies combined with the principles of Islamic banking had kept the disparity between money supply (M2) and debt from reaching the historic spread seen in the U.S. since the seventies. He argued that the spread in the U.S. had led to the accumulation of debt at a faster rate than the accumulation of wealth. This is not possible in Islamic banking where banks are only permitted to invest in the "real economy" and earn returns based on the profitability of the project or business subject of the loan. Investment in financial instruments such as credit default swaps and mortgage-backed securities is not permitted at

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Islamic banks. Suwailem noted the recent interest taken by some in the UK, France and elsewhere in the West in applying Islamic banking principles. In response to a question regarding the recent trip by UK Prime Minister Gordon Brown to the GCC in search of capital said that there is a greater willingness in the region to lend to Western institutions that apply Islamic banking principles. Suwailem commented that all divine religions apply similar principles to the use and lending of money including the practice of forbearance and the prohibition of usury.

16. The participants had little to say about the G-20 Summit, even when asked to comment on the role of Saudi Arabia. However, when asked about a statement by Finance Minister Ibrahim Al-Assaf on the sidelines of the Summit that the KSA has no plan to make additional contributions to the IMF, all agreed that that was the correct position in terms of their national interest. They noted the pressing infrastructure needs both locally and throughout the Kingdom - from fixing potholes to building proper schools -- and said that the local population asks why Saudi money should go to help elsewhere when there is so much work to do here. They agreed with FinMin Ibrahim that the KSA already does its part in helping to boost or reduce oil production as required by the rest of the world.

17. The price of oil was another subject on which the group declined to speculate beyond noting that whatever happens next year there is a 200 billion dollar surplus from the elevated price of oil in 2008 which is available to keep development projects on track. Given the private sector orientation of everyone in the room, there was a certain indifference to the price of oil as it might effect the economy. They said that business people and investors had made substantial profits in recent years and were deploying them in the Kingdom and beyond, whether in the creation of manufacturing operations or in real estate development projects here and in the Gulf. Only Kabli, the oldest participant, warned that there is no relationship between the price of oil and supply and demand. He said that despite aggressive reductions in output in the 80s, the price plummeted and the KSA had no power to stop it, cautioning

that there is no reason this can't happen again.

¶18. Despite the intended focus of the discussion on Saudi Arabia, the participants deviated more than once to speculate about the challenges facing President-elect Obama. Their remarks focused on the dilemma the new Administration will face concerning tax policy and they also said the market is waiting for action. One participant remarked that most governments have lost credibility in handling their economies during this crisis, and that the U.S. is now the champion of economic mis-management. He noted that going forward it will not be business as usual.

¶19. Comment. Most of the participants in the Roundtable are new contacts for AmConsul Jeddah. Their views were not generally known prior to the discussion. Nor, with few exceptions, did they know or know of each other. The consensus demonstrated over a range of issues was thus all the more striking. Pol/EconOff invited the group to reconvene following the Inauguration in the U.S. but before the next meeting of the G-20 to take the measure of economic conditions in Jeddah and beyond. End Comment.

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